



CITY OF DURHAM | NORTH CAROLINA

Date: May 22, 2012

To: Thomas J. Bonfield, City Manager
Through: Keith Chadwell, Deputy City Manager
From: Reginald J. Johnson, Interim Director
Department of Community Development
Subject: Southside Neighborhood Revitalization Agreement
and Acquisition Contract with the Center for
Community Self-Help

Executive Summary

Concurrent with the City's acquisition of privately-owned properties on the former Rolling Hills site, the Center for Community Self-Help (Self-Help) has acquired privately-owned properties elsewhere in the Southside neighborhood to ensure combined site control sufficient to undertake redevelopment activities of a significant scale. A parallel objective was to eliminate vacant and deteriorated structures which were significant blighting influences and those being used for criminal activity. To date, Self-Help has acquired or has options to acquire more than 100 properties for future development. Through a contract with O'Brien Architecture, Self-Help and City staff has coordinated the preparation of a development plan for the first 35 homeownership units that will be constructed in the neighborhood. An additional ten homeownership units are planned in a subsequent phase. The Self-Help owned properties are held in a land bank.

The purchase contract with Self-Help commits the City to acquire 56 parcels associated with the initial phases of homeownership development in Southside and to the acquisition of the 15-parcel Beamon/Piedmont property assemblage.

The Southside revitalization agreement with Self-Help provides for a performance fee payment to Self-Help for staff time associated with acquiring properties and related Southside activities and reimbursement to Self-Help for funds advanced under the contract with O'Brien Architecture.

Recommendation

The Department of Community Development recommends that City Council authorize the expenditure of up to \$2,600,000.00 in CDBG Section 108 loan funds and \$125,000.00 in housing bond program income, authorize the City Manager to execute the Purchase Contract between the City and the Center for Community Self-Help (Self-Help) and to authorize the City Manager to execute the Agreement for Southside Neighborhood Revitalization between the City of Durham and Self-Help.

Background

Self-Help began acquiring and land banking properties in Southside in 2005. After the selection of McCormack Baron Salazar (MBS) in 2007 as the lead developer for the former Rolling Hills site, Self-Help, MBS and the City carefully considered how new rental development and new homeownership development could be most effectively carried out. The consensus was that blighting influences and drug and criminal activity in Southside were so prevalent that the elimination of such influences on a large scale was necessary for either rental development or homeownership development to be successful. Based on that consensus, Self-Help accelerated its acquisition activities using both City funds and its own funds. In the fall of 2009, a revitalization plan was developed for the Southside neighborhood focusing on the redevelopment of Self-Help owned properties and the Rolling Hills site. The initial two phases of development proposed more than 200 mixed-income rental units and approximately 45 homeownership units in order to create sufficient critical mass to attract private investment in the neighborhood.

Through a Self-Help contract with O'Brien Architecture, a family of single-family detached house plans was developed for the Southside neighborhood. The house plans are comparable to those used in Eastway Village and feature spacious front porches and high quality exterior materials such as "hardiplank" siding. All homebuilders who acquire properties from the land bank will be required to use one of the house plans.

The design firm of Haden Stanziale has worked as team member under the O'Brien contract to prepare the development plan for the initial 35 homeownership units to be located along South Street,

Scout Drive, Piedmont Avenue, Hillside Drive and Chestnut Street. The plan calls for cut and fill to create more desirable building sites and new infrastructure improvements to enhance the marketability of the new homeownership units.

Issues/Analysis

While the City has provided some acquisition funds, most of the acquisition was done by Self-Help using internally borrowed funds having an interest rate of 8%. In total, Self-Help invested just over \$3 million of its own funds for acquisition in addition to other expenses incurred for demolition, insurance, maintenance and related costs. In May 2011, Duke University made funds available to Self-Help in the form of a five-year loan to subsidize the interest carry on acquisition and holding costs to 1%.

Funds to acquire Self-Help properties are included in the HUD-approved Section 108 loan. Accordingly, the purchase agreement provides for the City's acquisition of properties in the following locations identified on the attached Property Acquisition Map:

- Hillside Avenue
- South Street Entry
- South Street West
- The Triangle
- Beamon St. /Piedmont Ave.
- Piedmont Avenue

The Haden Stanziale development plan calls for cut being removed from South Street West and the Triangle with corresponding fill to be placed along Hillside Avenue and within the Beamon/Piedmont assemblage. Within the South Street entry, cut from the southern side of the street will also be used to help fill the steeply sloping lots on the northern side. That work is tentatively scheduled for the early fall of 2012 along with infrastructure and gateway improvements. Within the coming weeks, the Department will issue an RFQ to select homebuilders to begin home construction by early December.

Within the area referred to as the Beamon/Piedmont assemblage, the current parcel configurations do not lend themselves to efficient and desirable redevelopment. After acquiring the assemblage, the Department intends to coordinate with an adjacent church to achieve a mutually beneficial land swap and to close the existing Beamon Street. The assemblage is being studied as the site for future townhouse development which might be undertaken by way of a Request for Proposals. The newly configured parcel would

tentatively be accessed by way of a new public or private street connecting with Piedmont Avenue.

On the southern side of Piedmont Avenue there are several existing homes which are deemed likely candidates for rehabilitation. Plans for those properties will be developed in coordination with the plans for assemblage on the northern side.

Using June 30, 2012 as a projected acquisition date, the total cost of the 71 properties would be approximately \$2,557,992.00. An additional \$42,008.00 is included in the requested authorization to allow for additional interest carry associated with properties not acquired by that date and for attorney fees and other closing costs.

The agreement for Southside Revitalization provides for a payment to Self-Help for the staff time associated with acquiring the approximately 100 properties it now owns in Southside and a reimbursement to Self-Help for funds it advanced under the O'Brien Architecture contract (\$55,000.00). The total payment to Self-Help under that agreement is \$125,000.00. Additionally, the Agreement provides the City with the right of first refusal to acquire some or all of the remaining Self-Help properties in Southside.

The agreement also commits the City to fund and undertake the site preparation, infrastructure and gateway (entry signs and landscaping) required for the first 35 homeownership units.

Self-Help commitments specified in the agreement include keeping properties secured and maintained until acquired by the City.

Alternatives

Given the disinvestment that has occurred in the neighborhood over past decades, public financial participation in homeownership development is required. In conjunction with the development of mixed-income rental units by MBS, the intent of the homeownership component is to strengthen the social fabric of the neighborhood and to attract private investment over the longer term to redevelop the many vacant lots and deteriorated structures.

Should Council choose not to approve an agreement with Self-Help, the homeownership component of the Southside revitalization effort will not proceed as planned.

Financial Impact

Of the estimated \$2.6 million in acquisition costs, \$2.4 million is included in the CDBG Section 108 budget. It should be noted

however that the \$2.4 million was budgeted to acquire the Beamon/Piedmont assemblage at a cost of \$1 million and to acquire the initial 45 homeownership sites at a cost of up to \$1.4 million. The proposed purchase contract covers both the assemblage and a total of 56 other properties. In order to include the total amount of acquisition funding needed in the 108 loan, a modest adjustment in the five year resource projection by program will be required.

The \$125,000.00 Performance Fee payment will be drawn from housing bond program income in the Rolling Hills CIP.

SDBE Summary

A detailed scope of work for the site preparation, infrastructure and gateway improvements will be submitted to the Office of Equal Opportunity and Equity Assurance in order that participation goals may be established prior to bidding.